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Dominican Republic

Sugar

Annual

2005

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Report Highlights:
Sugar production is estimated at 510,000 MTRV in MY 2005, down from 553,000 metric tons in MY 2004, due to very dry weather conditions. Although production is down, the U.S. Tariff Rate Quota of 185,355 metric tons will almost certainly be filled.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

Executive Summary

Dominican sugar production is estimated at 510,000 metric tons for November 2004 – October 2005 marketing year (MY 2005). The two largest private producers, Central Romana and the Vicini group, are expected to produce almost 450,000 metric tons of this amount, with other mills accounting for the remainder. Production levels for MY 2006 should increase slightly.

Domestic sugar consumption is fairly stable at 330,000 metric tons and divided between raw (60%) and refined (40%) consumption. The general public consumes sugar mostly in raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. With refined sugar production at 135,000 metric tons for MY 2005, the country's total refined sugar needs are met and no imports are anticipated.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the highest single-country allocation. Production and consumption levels anticipate fulfilling the U.S. Tariff Rate Quota for the Dominican Republic, which has been steady at 185,335 metric tons in recent years. If the DR-CAFTA agreement is ratified, an additional 10,000 metric tons, with two percent yearly growth, would be added to the quota. However, the DR does not currently meet the net-exporter requirement of the agreement, blocking any increase in quota. Ratification of the agreement is being pursued in both countries during 2005.

Production

The two largest private producers, Central Romana and the Vicini group continue to dominate the Dominican sugar market and are expected to produce over 450,000 metric tons raw value in the November 2004–October 2005 marketing year (MY 2005), somewhat lower when compared to a near optimal harvest last year. The remaining six mills combined produced an additional 65,000 metric tons. Because of extremely dry conditions that have prevailed since early February, or even if weather conditions improve, this year's sugar cane volume will yield less sugar. The MY2006 production estimate assumes a return to normal rainfall patterns.

During the Dominican sugar golden years in the late seventies, the total output surpassed 1.2 million tons. Production gradually fell to an all-time low of 371,000 metric tons in MY 1999. This production decline was mainly due to technical, administrative, and financial difficulties with the state-owned sugar mills controlled by the State Council of Sugar (Consejo Estatal del Azucar or CEA), the major producer at the time. During CEA's peak production years, they operated twelve mills producing almost two thirds of the country's output. Currently, through a joint venture arrangement, most of CEA owned mills which remain operational, are now administered by private companies. As a result of the privatization process, production has become more stable.

In 1999, after long discussions, the Dominican Government concluded the privatization of the deteriorated state-owned sugar mills. The administrative transfer of the mills to private hands took place in calendar 2000. This capitalization process concluded with a 30-year rental agreement with private firms. The Consorcio Azucarero del Caribe, a Zurcamex subsidiary (from Mexico), invested in five mills (Rio Haina, Ozama, Boca Chica, Quisqueya and Consuelo), but collapsed shortly afterwards. By MY 2003, a new version of the investment group called Central Azucarera Consuelo reemerged but with only two of the five mills (Boca Chica and Consuelo) while the other three had been canibalized and are non operational. A second company, Dominican-owned Consorcio Agroindustrial Caña Brava, operated two of the smallest mills (Monte Llano and Amistad), one of which continues to operate but it is not certain that they will harvest this year. A third local enterprise, the Central Pringamosa invested in two mills, Santa Fe and Porvenir; however, both mills are now closed and will not return to sugar production. Finally, a Dominican-French-American group owned by AMEROP sold the Barahona mill to a Guatemalan consortium, Consorcio Azucarero Central. With fresh investment, this mill is operating successfully at partial capacity. A breakdown of official data on sugar output by producer group follows:

TOTAL SUGAR PRODUCTION BY COMPANY
MY 2001 - MY 2004, Metric Tons

Sugar Mill Group	MY 2001	MY 2002	MY 2003	MY 2004
Central Romana	318,900	272,272	317,810	410,536
Central Azucarera Consuelo	-	46,655	60,991	48,053
Grupo Vicini	66,728	59,408	80,893	76,883
Central Azucarera del Este	42,128	39,684	0	0
Consorcio Pringamosa	20,072	15,128	0	0
Consorcio Caña Brava	0	18,674	14,425	11,313
Consorcio Azucarero Central	12,015	11,965	23,007	27,151
Ingenio Cruz Verde	965	0	0	0
Total	***476,833***	***463,766***	***497,126***	***573,936***

Source: Dominican Sugar Institute (INAZUCAR) and post estimates.
Post estimates are lower as official numbers remain preliminary.

Refined sugar production in Central Romana continues strong at an estimated 135,400 metric tons for MY 2004, and it should remain at that level in MY 2005, meeting most of the country's refined sugar needs. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry. According to the Dominican Sugar Institute (INAZUCAR) statistics for MY 2004, the sugar industry produced about 41.3 million gallons of molasses. In addition, Central Romana produced almost 35,000 metric tons of furfural.

Central Romana and the Vicini group generally begin the sugar harvest in early to late December, while Consorcio Azucarero Consuelo begins in January. As a result, the first group is able to process more cane before the rainy season typically interrupts the harvest in late June or early July. The second cycle sugar groups begin refining operations in June, including Concorcio Azucarero Central and Consorcio Caña Brava.

Rainfall patterns, fertilization, and labor are the main factors that determine sugar yield. Industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana, and sometimes other groups do minimal amounts of aerial spraying. Less than half of the land in sugar cane production is irrigated and, as a consequence, is subject to stress during dry periods, as are being encountered this year.

The sugar industry requires about 30-35,000 full-time workers and an additional 15,000 to 20,000 temporary cane cutters during harvest. Only about 10 to 15 percent of sugar cane is harvested mechanically. The degree of mechanization will not increase in the future, unless labor costs increase, which is not likely.

Cane yields vary between 30 and 80 metric tons per hectare, depending upon location, rainfall patterns, available transport resources, cane varieties and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. During the last ten years, the sugar recovery rate averaged 10.6 percent, but has been lower during the most recent five years. In MY 2004, sugar recovery rates averaged 10 percent, while Central Romana averaged 11.7 percent. Estimates for MY 2005 are not expected to change.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates have varied widely, however, between 8 and 12.5 percent. Sugar content also fluctuates between 7 and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Local cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic. Some of the sugar cane crosses used in the DR are CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Costs of production vary substantially from company to company, ranging from more than US$ 0.22 to US$ 0.14 per pound.

Consumption

Domestic sugar consumption is fairly stable at about 330,000 metric tons, with 55 to 60 percent consumed raw and the rest as refined sugar. The general public consumes sugar mostly in raw form, while the soft drink and juices and confectionary industries primarily use refined sugar. Central Romana is the only local refiner. It is currently estimated to produce about 135,000 metric tons, which is close to their maximum capacity.

The following table is derived from INAZUCAR data and shows the pattern of local sugar sales.

LOCAL SUGAR SALES BY PRODUCERS
Metric Tons

Sugar type	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
Raw	160,825	195,243	189,184	184,440	188,500*
Refined	115,150	117.956	154,036	134,455	139,500*
Semi Refined	0	0	0	0	0
Total	275,977	313,199	343,220	318,895	328,000*

*Preliminary estimate.
Source: INAZUCAR and Industry.

Trade

Some of the refined sugar consumption shifted to raw sugar, as a result of the banking crisis in 2003, which led to a sharp devaluation of the peso and reduction in Dominica purchasing power. The economy remains in difficulty, although consumption appears to be increasing. Refined sugar production for MY 2004 was about 139,000 metric tons, which should meet the country's total refined sugar needs and make it unnecessary to import refined sugar. It is important to note, however, that some private producers have indicated that informal exports across the land border to Haiti may be large enough this year to create a small deficit. According to INAZUCAR data no sugar imports were authorized in MY 2004 or early MY 2005.

Import duties are 15 percent for raw sugar and 20 percent for refined sugar, plus a 16 percent value-added tax, referred to by its Spanish acronym ITBIS. Imports of sugar and sugar-based products still require permits from INAZUCAR (decree 576-96). With the tariff rate quota negotiated in the Uruguay Round in mind, the Dominican Republic has stated that it could issue permits for up to 23,000 metric tons imports on a first-come, first-serve basis. However, in MY 2003 and 2004 the Secretary of Industry/INAZUCAR authorized no imports. With just the 20 percent tariff and 16 percent ITBIS, refined sugar imports (in quota) would enter the country a prices well below those of domestic sugar.

Under the recently negotiated DR-CAFTA agreement, the DR will reduce its sugar duties from 85% to zero over a fifteen-year period. HFCS will also disappear in the same period

There are two industries and sister companies operating as off-shore plants belonging to a special Free Trade Zone (Consejo Nacional de Zonas Francas de Exportacion [CNZFE]) operation, using sugar as a raw material. These companies are Productos del Tropico and Caribex Dominicana, and their major products for the export market are sweetened coconut milk and piña colada mix. They also produce juices and smaller quantities of canned red-pinto-beans and garbanzos, which contain some sugar. According to CNZFE, they are authorized to import/process and reexport as much as 6,600 of sugar per year. Sugar that is brought into the free trade zones and then reexported as finished products does not require an import permit and is not reflected in Dominican import statistics. Ag Office import estimates in this report do not include the free trade zone sugar.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the largest single country allocation of 16.4 percent of the total U.S. allocation for the world. The DR's initial TRQ allocation for MY 2005, at 185,335 metric tons, was the same as the previous year. Under the recently negotiated DR-CAFTA free trade agreement, an additional 10,000 MT would be added to the current quota, with two percent growth per year, if the DR can meet the net exporter requirement of the agreement. However, this seems unlikely. Final ratification of this agreement is being pursued in the Dominican and U.S. Congresses during 2005.

As of the end of March 2005, only 30,000 metric tons raw value have been requested for export to the United States under the 2004/05 TRQ. Most exports are now moving to the United States, because of price and proximity, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti. The following table presents monthly sugar exports to the United States, for the past five marketing years:

DOMINICAN MONTHLY RAW SUGAR EXPORTS TO THE UNITED STATES
MY 2001 - MY 2005

Month	00/01	01/02	02/03	03/04	04/05
January	571	11,205	6,150	24,847	
February	6,453	6,000	272	6,527	
March	17,943	12,694	18,402	7,674	
April	10,312	15,072	41,106	13,730	
May	16,684	37,274	26,797	21,639	
June	14,882	36,844	11,872	32,867	
July	35,013	22,136	28,963	37,462	
August	31,512	30,820	6,200	23,031	
September	16,177	6,800	38,877	10,318	
October	159	321	272	227	
November	341	227	45	136	
December	228	908	227	272	
Total Calendar Year	149,875	179,734	179,183	178,731	30,000
Total Quota Year	178,866	179,563	-	178,958	-
Quota	185,346	185,346	185,335	185,335	185,335

Note: Values have not been adjusted to 98 degrees pol.
Source: INAZUCAR and post estimates.

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry.

According to preliminary INAZUCAR statistics for MY 2004, sugar exports to the U.S. preferential market represented about US$73 million. In addition, the sugar industry produced 38 million gallons of molasses. About 20 million gallons of which were used for local consumption and a similar quantity (valued at almost $10 million) was exported. In addition to molasses, 33,000 MT of furfural were exported, valued at about US$14 million.

Stocks

In addition to major producers, stocks are also held by middlemen and wholesalers. As no imports were authorized in MY 2004 and higher volumes were produced, stock levels should range between 50-60,000 MTRV early in the season. Although it is early to anticipate, these values may vary in the out year.

Policy

Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

For over thirty years, the U.S. sugar quota was divided among the three producers according to an established formula based on last three-year individual production levels. According to that formula, the allocations last year were Central Romana 56.31 percent, Vicini 12.48 percent, Central Azucarero Consuelo 18.56 percent, Consorcio Azucarero Central, 7.87 percent, and Caña Brava 4.78 percent.

As part of its WTO rectification agreement, after the Uruguay Round, the Dominican Government established a tariff rate quota for 23,000 metric tons of sugar, with an in-quota tariff level of 15 percent for raw while 20 percent for the refined. This gradually increased to 29,000 metric tons today and 32,000 metric tons by the end of 2005. Maximum out-of-quota tariffs were established at 100 percent, decreasing to 86.5 percent in 2005.

Under the new DR-CAFTA agreement and after is ratified by both United States and Dominican Governments, the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period.

Marketing

The Secretary of Industry and INAZUCAR establish the base price of raw, semi-refined and refined sugar. As a result, prices are stable and producers sell directly to wholesalers and to large companies that use sugar in their product formulations. As of March, 2005 the official sugar prices were as follows:

Official Prices for Sugar

Type of sugar	***Producer (per 100 lbs.)***	***Wholesaler (per 100 lbs.)***	***Retailer (per lb.)***
Raw	675.00	736.00	8.10
Semi-refined	N/A	N/A	N/A
Refined	810.00	890.00	9.90
Exchange rate per US$: RD$28.50 pesos			

Source: INAZUCAR

Dominican sugar cane prices are stable and it is generally guided by the exchange rate. While the 2003/2004 prices were US$13.39 per metric ton, 2004/2005 has shown (as of March 2004) a slight average decrease of US$0.10/ton appears as the exchange rate fluctuates. Also, the retail prices for sugar have remained stable during the last twelve months. As of March 2005, prices for crude sugar ranged from US$0.33 to US$0.35 per pound (RD$8.10-10.00). Refined sugars ranged from US$0.41 to US$0.45 per pound (RD$10-13). Supermarkets generally sell raw sugar in two and five-pound packages, while small neighborhood stores (colmados) sell in very small amounts to meet the needs of lower-income consumers.

Statistical Data

PSD Table

Country Dominican Republic
Commodity Sugar Cane for Centrifugal (1000 HA)(1000 MT)

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [	New]
Market Year Begin		11/2003		11/2004		11/2005	MM/YYYY
Area Planted	250	250	0	250	0	250	(1000 HA)
Area Harvested	242	242	0	238	0	240	(1000 HA)
Production	5100	5250	0	5100	0	5150	(1000 MT)
TOTAL SUPPLY	5100	5250	0	5100	0	5150	(1000 MT)
Utilization for Sugar	5100	5250	0	5100	0	5150	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	5100	5250	0	5100	0	5150	(1000 MT)

PSD Table

Country	Dominican Republic						
Commodity	Sugar, Centrifugal			(1000 MT)			
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [	New]
Market Year Begin		11/2003		11/2004		11/2005	MM/YYYY
Beginning Stocks	22	22	22	60	21	53	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	505	553	508	510	0	530	(1000 MT)
TOTAL Sugar Production	505	553	508	510	0	530	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	527	575	530	570	21	583	(1000 MT)
Raw Exports	183	183	187	183	0	183	(1000 MT)
Refined Exp.(Raw Val)	2	2	2	2	0	2	(1000 MT)
TOTAL EXPORTS	185	185	189	185	0	185	(1000 MT)
Human Dom. Consumpti	320	330	320	332	0	335	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	320	330	320	332	0	335	(1000 MT)
Ending Stocks	22	60	21	53	0	63	(1000 MT)
TOTAL DISTRIBUTION	527	575	530	570	0	583	(1000 MT)